

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2013-1

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5
(November 6, 2012)

The Postal Service hereby files its responses to questions 1-5 and 7 of
Chairman's Information Request No. 5, issued on October 31, 2012. Each
question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema
John F. Rosato
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-7178, FAX: -6187

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

1. Please provide the rationale for not including HD-Sat-CR IMb Incentive and HD-Sat-CR Move Update Penalty in the calculation of the percentage increase for High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route. See attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: By Product, Lines 10 and 11. Please file revised workpapers as appropriate.

RESPONSE:

The HD-Sat-CR IMb Incentive and HD-Sat-CR Move Update Penalty are included in the Total Adjusted Revenue, which was then used to calculate the total percent change for Standard Mail. This approach is consistent with past practice in Docket Nos. R2011-2 and R2012-3.¹ However, for illustrative purposes, the Postal Service has provided step-by-step instructions for including the IMB incentive and Move Update Penalty adjustments in the percent increase calculations for High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route.²

¹ See, e.g., Docket No. R2012-3, USPS-R2012-3/2, *CAPCALC-STD-R2012.xls*, tab HD-Sat-CR Revenue@New Prices, Cell E81 (specifying that revenues used to calculate product percent changes exclude adjustments); Docket No. R2011-2, USPS-R2011-2/2, *CAPCALC-STD-R2011.xls*, tab "HD-SAT-CR Revenue@New Prices," Cell E181 (specifying that revenues used to calculate product percent changes exclude adjustments).

² See, excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tabs "HD-Sat-CR Revenue@Curr. Prices", step 5, cells L87 – L89 and "HD-Sat-CR Revenue@New Prices" step 6, cells L125 – L127, filed with this response.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

2. Please refer to attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: Nonprofit. Please confirm that lines 8/ through 12/ are not included in the calculation of the nonprofit/commercial ratio.
- a. If confirmed, please refer to the nonprofit/commercial ratio calculated on tab: HD-Sat-CR Revenue forgone from tab: Price Change Sum w. Promotions, cell: D57. Please confirm this revised nonprofit/commercial ratio. If the revised nonprofit/commercial ratio is not confirmed, provide revised workpapers that distribute the items in the attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: Nonprofit, lines 8/ through 12/ between nonprofit and commercial and provide a revised nonprofit/commercial ratio.
 - b. If not confirmed, please:
 - i. explain the discrepancy (\$30,975,034), between the revenue included in the nonprofit/commercial ratio and the revenue used to calculate the percentage change in rates for the Standard Mail class on tab: Price Change Summary; and
 - ii. provide revised workpapers that distribute the revenue at new prices for Standard Mail on tab: Price Change Summary between nonprofit and commercial.

RESPONSE:

Confirmed.

- a. Not Confirmed. The revised ratio can be found in excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "Nonprofit", cell C30, filed with this response.
- b. Not Applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

3. Please refer to attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: By Product. Please confirm that the weighted average of Standard Mail percentage change by product, filed in the Notice is equal to 2.685 percent. See attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: By Product cell: E8. If not confirmed, please explain and provide workpapers that calculate the weighted average of Standard Mail products' price increases as set forth in the Postal Service's Notice. Notice at 19.

RESPONSE:

Confirmed in Part. Taking a weighted average of the percentage changes by product from Table 8 of the Postal Service's Notice of Market-Dominant Price Adjustment (Notice), the Commission correctly calculates an overall percentage increase for Standard Mail as 2.685 percent. However, for purposes of cap compliance, the Postal Service did not calculate the overall percentage change for the Standard Mail Class by taking a weighted average of the percentage changes by product from Table 8. The percentage changes by product from Table 8 do not include all adjustments for various incentives and promotions.³ This is consistent with the Postal Service's prior treatment of certain adjustments in Docket Nos. R2012-3 and R2011-2.⁴ Such adjustments would need to be accounted for in order to calculate percentage changes by product that could be averaged to match the percentage change for the Standard Mail class.

³ For example, the percentage changes for Letters, Flats, and Parcels include adjustments for the IMB Incentive and the Move Update Penalty. In contrast, the percentage changes for High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route, do not include adjustments for the IMB Incentive and the Move Update Penalty. None of the percentage changes by product include adjustments for the promotions proposed in this docket.

⁴ See, e.g., Docket No. R2012-3, USPS-R2012-3/2, *CAPCALC-STD-R2012.xls*, tab HD-Sat-CR Revenue@New Prices, Cell E81 (specifying that revenues used to calculate product percent changes exclude adjustments); Docket No. R2011-2, USPS-R2011-2/2, *CAPCALC-STD-R2011.xls*, tab "HD-SAT-CR Revenue@New Prices," Cell E181 (specifying that revenues used to calculate product percent changes exclude adjustments).

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

Instead, the Postal Service calculated the overall percent increase for the Standard Mail Class by making all necessary adjustments to the total calculated revenues for LFP and HD-SAT-CR.⁵ Using this methodology, the Postal Service calculates the overall percentage change for the Standard Mail to be 2.541 percent.⁶ The Postal Service believes this approach complies with the statutory price cap by ensuring that the percentage price increase for the Standard Mail class does not exceed 2.570.⁷

⁵ See, excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "LFP Revenue@New Prices," filed with this response. This workbook includes Step-By-Step instructions for replicating the Postal Service's calculations.

⁶ *Id.* This calculation is different from the 2.570 increase for Standard Mail, which was reported in the Postal Service's Notice of Market-Dominant Price Adjustment. Due to an error corrected in response to Chairman's Information Request No. 3, question 4, the overall percentage increase for Standard Mail declined. The corrected calculation can be found in the excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "LFP Revenue@New Prices" cell J182, filed with this response.

⁷ See, 39 U.S.C. § 3622(d)(2)(A), which applies the statutory price cap to each *class* of mail, as opposed to each individual product.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

4. Please refer to attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: By Product. Please confirm that lines 10 through 15 are not included in the percentage change by Standard Mail product calculations. If not confirmed, please provide revised workpapers that resolve the \$30,975,034 discrepancy between the sum of the revenue at new prices for each product and the revenue at new prices shown on tab: Price Change Summary.

RESPONSE:

Confirmed. However, please note that the revenue forgone from the Mail to Mobile Promotions is revised to reflect updated calculations. These updated calculations are noted in green highlights in excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "LFP Revenue@New Prices," cell D145, and tab "HD-Sat-CR Revenue@New Prices," cell E117, filed with this response. The revised calculations for the Mail to Mobile promotions are calculated in excel workbook *MtoMPromotions-STD-R2013_Errata.xls*, filed with this response.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

5. Please refer to attached workpapers CAPCALC-STD-R2013_PRC.xls, tab: Price Change Sum w. Promotions. Please confirm the following price adjustments by Standard Mail product:

Letters	2.618%
Flats	2.410%
Marketing Parcels	3.050%
High Density and Saturation Letters	2.054%
High Density and Saturation Flats and Parcels	2.105%
Carrier Route	2.939%

If not confirmed, please provide revised workpapers that calculate the price adjustments by product based on Postal Service responses to this CHIR.

RESPONSE:

Confirmed in part. The methodology used by the Commission to calculate the percent changes by product (including the forgone revenue from promotions) is confirmed. However, the Postal Service does not confirm the actual percentages calculated by the Commission. As shown in Table 1 below, the Postal Service arrives at different percentage change calculations. This discrepancy can be explained by the fact that the Commission has: 1) used the incorrect revenue forgone from the promotions in file CAPCALC-STD-R2013_PRC.xls, tab "Price Change Sum w. Promotions"; 2) used the incorrect current and new revenue for High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route in the same tab; and 3) incorrectly applied the Earned Value Reply Mail promotion postage credit to Flats and Marketing Parcels. The Postal Service's calculations are shown in the excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "By Product" (column I), filed with this response.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

Table 1

Letters	2.610%
Flats	2.416%
Marketing Parcels	3.081%
High Density and Saturation Letters	2.059%
High Density and Saturation Flats and Parcels	2.092%
Carrier Route	2.907%

The figures shown in Table 1 above represent the “adjusted” percent changes for each product. These percent change calculations represent one method for demonstrating the effect of certain promotional rates that will be given at different periods during the upcoming year. The weighted average of these adjusted price increases equals the Standard Mail class increase and can be used to verify compliance with the statutory price cap.

In contrast, the Postal Service reported (in Table 8 of its Notice) the “unadjusted” percent changes for each product. Since the unadjusted percent increases for each product do not include adjustments for various incentives and promotions, a weighted average of these rate increases does not equal Standard Mail’s overall percentage increase.⁸ Nevertheless, as the Postal Service explained in response to Question 3 of this information request, compliance with 39 U.S.C. § 3622(d)(2)(A) was ensured by applying all adjustments (including forgone revenue from the promotions) to the total calculated revenue for

⁸ The Postal Service recognizes that it should not have combined the two different types of percent increases in one table, without indicating that the product percent increases are not intended to average to the Overall percent increase at the bottom of the table.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

Standard Mail.⁹ Similar to the Commission's approach, this methodology ensures that the overall percentage increase for Standard Mail does not exceed the CPI-U cap. Thus, regardless of which approach the Commission chooses to use for percentage increases by product, the Standard Mail rates submitted by the Postal Service in this docket fully comply with the statutory price-cap.

Despite the concerns of some commenters, the Postal Service did not report unadjusted percent changes by product in an attempt to mislead or confuse the Commission. Rather, the use of unadjusted percent changes by product in this docket simply reflects conformance with past practice and a desire to promote greater transparency for mailers. First, the Postal Service believes that the use of unadjusted percentage increases for each product promotes greater transparency because: 1) they reflect the actual average increases in rates for mailers who do not participate in any promotions (or the IMb incentive); and 2) they reflect the actual increases in rates for all mailers when no promotions are active. In short, the unadjusted percent changes by product offer the most transparent view of the maximum average percentage increase that many mailers (especially those not participating in promotions) will experience beginning on January 27, 2013.

Additionally, with respect to conformance with past practice, it is important to note that the Postal Service has reported the unadjusted percent changes for certain products in prior market-dominant rate cases. For instance, in Docket

⁹ See excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "LFP Revenue@New Prices," filed with this response. This workbook includes Step-By-Step instructions for replicating the Postal Service's calculations.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

Nos. R2011-2 and R2012-3, the effect of IMB incentive and Move Update Penalty adjustments were not factored into the percentage increase for High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route.¹⁰ As explained in the Postal Service's response to Question 3 of this information request, the effect of those adjustments was accounted for by adjusting the total calculated revenue for Standard Mail. Neither the Commission nor any commenter objected to this practice during those dockets.

Standard Mail Flats:

Nevertheless, the Postal Service acknowledges that using the adjusted percentage increase for Standard Mail Flats (which is lower than the CPI-U cap of 2.570 percent) causes the Postal Service's proposed rate increase to appear to fall below the CPI-U cap. However, as the Postal Service has explained above, it believes that the unadjusted percent changes by product most accurately reflect its proposed rate increases, because they represent the actual rate increases that many mailers (especially those not participating in promotions) will experience. Additionally, the Postal Service believes that concern over the adjusted percentage increase for Standard Mail Flats is mitigated by two major factors: 1) the Postal Service's cost coverage projections for Standard Mail Flats; and 2) the Commission's conclusions concerning the

¹⁰ See, e.g., Docket No. R2012-3, USPS-R2012-3/2, CAPCALC-STD-R2012.xls, tab HD-Sat-CR Revenue@New Prices, Cell E81 (specifying that revenues used to calculate product percent changes exclude adjustments); Docket No. R2011-2, USPS-R2011-2/2, CAPCALC-STD-R2011.xls, tab "HD-SAT-CR Revenue@New Prices," Cell E181 (Specifying that revenues used to calculate product percent changes exclude adjustments).

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

minimal impact of prior promotions on Standard Mail Flats' cost coverage remain valid.

First, while there is superficial appeal to being concerned about the adjusted percentage change for Standard Mail Flats being below the CPI-I cap, this argument does not effectively rebut the Postal Service's cost coverage projections for the Flats product. In response to Commission Information Request No. 1, the Postal Service estimated that Standard Mail Flats' cost coverage will increase to 83 percent in FY 2012 and 86 percent in FY 2013.¹¹ The Postal Service stands by these projections. Even if one accepts the notion that the proposed rate increase for Standard Mail Flats is below the CPI-U cap (which the Postal Service does not), this argument is made moot by the fact that Standard Mail Flats' cost coverage will improve over the next two fiscal years. Thus, the Postal Service has complied with the overarching objective of the Commission's FY 2010 Annual Compliance Determination (ACD) order: increasing Standard Mail Flats' cost coverage.

Second, even if the effect of the promotions causes the percentage increase for Standard Mail Flats to fall below the CPI-U cap, this does not mean that the promotions will have a negative impact on the Postal Service's ability to improve Standard Mail Flats' cost coverage. Indeed, when approving prior promotions, the Commission has noted that those incentive programs would not

¹¹ Docket No. R2013-1, *Responses of the United States Postal Service to Questions 1-6 of Commission Information Request No. 1*, at 2 (October 23, 2012).

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

have a material effect on Standard Mail Flats' cost coverage.¹² In those instances, the Commission cited the small amount of the discounts, short duration, and focus on improving the long-term value of direct mail, as reasons supporting its conclusion. Given that the promotions proposed in this docket retain similar structures and purposes to those approved in the past, the Postal Service believes the Commission's prior conclusions remain valid. Moreover, the historic volumes from a previously approved promotion (2011 Mobile Barcode Promotion) are being used to project the proposed promotions' impact on the price cap.¹³ At base, the only difference between the Commission's prior conclusions and the present docket, is that this is the first time the Postal Service has attempted to recover revenue forgone from promotions under the price-cap. If each of the previously approved promotions had been factored into the price cap calculation in previous years, they would have had a similar effect of lowering the unadjusted rate increase for Standard Mail Flats. As demonstrated by the Postal Service's projected FY 2012 cost coverage for Standard Mail Flats, past promotions have not hindered it from moving the Flats product toward 100 percent cost coverage.

¹² Docket No. R2012-9, *Order No. 1424: Approving Market Dominant Price Adjustment*, at 8 (August 7, 2012) ("The Mobile Shopping Promotion...should not materially affect Standard Mail Flats' cost coverage"); Docket No. R2012-6, *Order No. 1296: Approving Market Dominant Price Adjustment*, at 8 (March 26, 2012) ("[T]he relative cost contributions between Standard Letters and Standard Flats remain relatively unchanged as a result of this short-term discount.").

¹³ Docket No. R2013-1, *United States Postal Service Notice of Market-Dominant Price Adjustment*, at 5 (October 11, 2012).

RESPONSE OF UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 AND 7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

7. Please refer to USPS-LR-R2013-1/2, CAPCALC-STD-R2013.xls, tab: HD-Sat-CR Revenue@New Prices, cell: E124. Please confirm that cells: D78:E78 and D34:E34 should be included in the revenue at new prices for Carrier Route. If not confirmed, please explain. Provide revised workpapers as appropriate.

RESPONSE:

Confirmed. See the excel workbook *CAPCALC-STD-R2013_PRC_ChIR5.xls*, tab "HD-Sat-CR Revenue@New Prices", cell E124, filed with this response.